

A Work Project presented as part of the requirements for the Award of a
Master's degree Finance from the NOVA – School of Business and Economics.

THE QSR INDUSTRY AT ALL VELOCITY

CARLA SOFIA PEIXOTO PEDROSO
25945

A Project carried out on the Master's in Finance Program, under the supervision of:

FILIPA CASTRO

6th JANUARY, 2020

Abstract

The QSR Industry has been using Technology, Delivery and Digital to fuel its transformation. The resilience of the segment has been allowing to overcome downturns. Still, more informed consumers have been demanding more quality, pressuring the industry to address distinct audiences: service and convenience. Customers-centric strategies pursuit by McDonald's have been allowing for differentiated experiences while addressing customer's needs. Still, the chain ability to predict trends and to quickly react to it, at global scale, has been positioning them to success. It's all about strategy and consumers are "*lovin' it*".

Keywords

QSR, McDonald's, Technology, Trends

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

I. Industry Overview and Economic Cycles

Primarily recognized by “Fast-Food”, the Quick Service Restaurant (QSR) industry is characterized by the provision of cheap meals with average quality, limited menu offerings, minimal or none table service, at high speed. The price points range from \$4 to \$7, with pizzas chains slightly overtaking. Typically, the cooking process is very standardized, as an assembly line, not requiring specialized culinary skills. From the 70’s until today, the fast food industry had grown with a multiple of 30, jumping from \$6 bn in 1970 to \$223 bn, already in 2020, only in US [*FranchiseHelp*, 2019]. Moreover, according to MarketWatch, between 2019 and 2026, the global QSR Industry is expected to grow 7.61% CAGR and have been growing globally 2.9% from 2014 to 2019 [*IBISWorld*, 2019]. North America is expected to lead the path due to high demand for ready-to-eat meals in the region; Europe comes as the second market for the next coming years, while Asia-Pacific is unanticipated to register the highest growth rate mainly driven by urbanization and by the spread of ready-to-eat meals awareness.

II. The Industry in Economic Downturns

By concept, QSR are affordable convenient options offering a caloric meal at a cheap price, attractive for purchasing either for convenience, either for dinning. Contrarily, Casual Dining Restaurants are boosted from rising in income, offering an experience while allowing for socialization *status*. Therefore, if a recession hits the economy unexpectedly, affecting consumer spending, Casual dining is more likely to be primarily affected than QSR. As household’s income starts shrinking, there’s a consumer shift to lower layers of the market, such as QSR, as observed in the 2008 financial crisis. At the time in which Global GDP was diminishing more than 4% [2019, *IMF*], fast food chains, such as Subway, Panera Bread, Burger King, saw an increase in sales of 17.1%, 6.9% and 6.6%, respectively [2008, *QSR Magazine*]. Bakery, Coffee Beverages, and Hamburger were the hot sectors to invest with fast food chains growing 4.5% over 0.9% registered by full-service chains. As of November 2009,

the Financial Times reported “*Recession sees growth in fast-food outlets*”. At the time, the financial newspaper realized that while consumer spending was at low levels, more people was sticking to cheap and easy food, contributing to the wide spread of fast-food chain stores. Only in UK, the number of chains in the top 10 UK cities grew 8.2%, in 2009, having also recorded a growth of 6.6% in the whole previous year (2008).

III. Industry Trends

Fast-food chains have been engaging in a massive price war at a global scale, aiming to conquer market-share. Still, concerns regarding food quality, health issues and environmental sustainability have been shifting more conscious consumers to the Fast Casual, which has a price point ranging from \$7 to \$12, with superior quality (relatively to Fast Food), lying in between Fast-food and Casual dining. From digital to delivery, from environment to fast change consumer tastes, the industry has been at its fastest pace and much more is yet to come: (1) Craving for foreign flavours and plant based offerings; (2) French-fries resurgence; (3) Cold brews explosion; (4) Flourishing food dressing; (5) Scaling back; (6) Balancing convenience/experience; (7) Third party delivery and streamline; and (8) Proliferation of fine casual were some of the trends appointed by the *QSR Magazine* for the sector. Moreover, in 2020, movements regarding “farm-raised”, “organic and “zero waste” are expected to gain more strength over fast-food chains, at a time in which consumers claim for quality and authenticity. Also, robotics linked with Artificial Intelligence (AI) have been allowing to create a whole new customer involvement by suggesting, recording and processing every transaction, while gathering and improving customer base. To note that for Millennials (1980-1994) and Generation Z (1995-2015), digital natives, any interaction with technology (even if only wi-fi) are enough to improve the experience, according to consumers surveys.

IV. Plant Based Emersion

Health concerns regarding healthy and sustainable eating have been shifting consumers

to green and clean options. Only in US, 17% of consumers said to be “plant-forward” (70% of the diet is supported by plant-based ingredients), increasing to 23% if we refer to the Canadians [Data advanced by Lendec Corporation, a leading company in the sector]. Still, when it comes to fast food, it does not necessarily mean the shift is essentially healthier. “Impossible Foods” (California, 2011) and “Beyond Meat” (California, 2009), promise to bring plant-based “meat”, as nutritional as beef, with similar flavour. Nevertheless, both are vegan choices in an early stage of development, waiting for scaling. Burger King, Subway, Hard Rock, Dunkin’ and even McDonald’s (in Canada) are some of the most recognized chains already testing the concept. However, those are still processed foods, unhealthy and unclear for the majority of the consumers. The adoption of the plant-based “meat” in the menu offerings require structural (recipes), logistics (new suppliers, market is still very new) and operational (cannot be grilled in the same grills as beef) changes.

V. McDonald’s leading at All Velocity

1. How industry trends have been shaping company strategy

McDonalds’ is the world leader in consumer foodservice industry, as the main revenue driver in the QSR industry, having 14% of market share in US, 36% in France, 27% in Germany and 21% in Australia (2019, Passport Euromonitor). The company is present in more than 120 geographies worldwide spread over 37,855 stores with a 93% franchised structure (2018, Company Report). Since its foundation, McDonald’s have always been beyond the standard: (1) The Speeded Service System, inventing the assembly line methodology (1948); (2) Happy Meal with toy offering for the children (1979); (3) Food safety and Quality standard policy; (4) complete Drive-thru experience; (5) 24 hours/7 days a week schedule; (5) Free Wi-Fi Connection in all McDonald’s brunches (2010); and (6) Self-order kiosks were some of the innovations that the 79 year-old company presented to the market. The disruptive position in the industry led the sociologist George Ritzer to published the idea of “*McDonaldization*”,

which the author refers to be the dominance of the fast food principles over society, which are translated in the modification of the provision of goods and services towards efficiency in the sale and in the distribution.

2. McDonald's in Downturns

The company continuous efforts to adapt to what customers demand and to innovate to improve efficiency in operations turned out to be reflected in critical times, such as in the 2008's Financial Crisis, in which McDonald's saw its same-stores sales increasing 7.7% worldwide, 4.5% of the total coming from US. "The Telegraph" reported the company appeared to be immune to a recession, while Forbes said the company loved recessions. The key point here was Strategy, as McDonald's never stopped delivering and adapting to changes in consumers preferences: (1) Extended breakfast schedule and late-night meals (24/7); (2) Adjusted the dollar menu i.e. Substituted Cheeseburger by Hamburger as the \$1 sandwich in response to increase in commodities prices; (3) Bet on Delivery; and (4) Boosted McCafé offerings.

3. McDonald's and Industry Trends

At this stage, McDonald's already took the ride of the digital and of the delivery, with these two being the pillars of the Velocity Growth Plan that the company launched in 2017. Moreover, in an attempt to transform in-store customer experience, "The Experience of the Future", deeply tied with the digital, introduces the concept of "Restaurant Guest Experience Leader", while tackling technology excitement and operational efficiency. Under this plan: (1) Restaurants were modernized in terms of design, technology and interaction counters; (2) Customers can order through self-order kiosks and mobile app; (3) McDonald's launched "Mobile Order & Pay"; (4) Through partnership with Uber Eats, customers can also have McDelivey at home. But the story doesn't stop here, as the recent AI acquisitions: Dynamic Yield and Apprento, promise to bring personalized experience to the scene.

Regarding Sustainability, the company has identified five critical areas of action:

packaging and recycling, climate action, beef sustainability, youth opportunity and commitment to families launched under the motto of “Scale for Good”. Still, for a sizeable company like McDonald’s, which alone buys 2.5% of the total beef in European Union [2019, Company’s Website], and which, by concept, rely on disposable items to serve its products, this is a very critical question. Moreover, in order to tackle consumers preferences concerning quality and transparency, last year the company switched frozen to fresh beef, in US, resulted in an increase in 30% of the sales in last Q4 of 2018, according to CNN news. The company also launched its “Signature Collection” worldwide offering premium beef and placing itself one step closer to Fast Casual Experience

4. Plant-Based Offerings

McDonald’s has been testing Beyond Meat in Canada, registering a positive response but not a crashing success. Probably fears regarding Beyond meet capacity to supply the company due its early stage of development and because beef offerings are the company speciality, makes McDonald’s to look in a very carefully way to Plant-based offerings.

Concluding, McDonald’s constantly searched to answer customers’ needs have been leading the company to anticipate and evolve trends in the Industry. It’s all about strategy and consumers are “*lovin’ it*”.

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